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Message Text

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TO AMEMBASSY JAKARTA PRIORITY
INFO AMEMBASSY TAIPEI

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TAGS: BEXP, ID
SUBJECT: U.S. COMPETITION IN STEEL MILL CONSTRUCTION

REF: (A) JAKARTA 1778, (B) TAIPEI 0754

1. CHINA STEEL PROJECT WAS NOT BASED ON DIRECT REDUCTION BUT RATHER CONVENTIONAL BLAST FURNACE TECHNOLOGY USING IMPORTED IRON ORE (PELLETIZED) FROM AUSTRALIA, INDIA AND CHILE. INDONESIA'S ABUNDANCE OF GAS AND LACK OF METALURGICAL COKE ARGUES FOR DIRECT REDUCTION FACILITIES. IN DIRECT REDUCTION THE IRON-MAKING STAGE CAN BE ELIM-INATED AND MILL CAN GO DIRECTLY TO STEEL MAKING. HOWEVER, STRUCTURING OF PROJECT VARIES LITTLE USING EITHER ROUTE.

2. U.S. COMPANIES WITH DIRECT REDUCTION PROCESSES OR LICENSES ARE:

--- A) ARTHUR MCKEE - EXXON FIJOR PROCESS
--- B) SWINDELL-DRESSLER - H Y L PROCESS
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--- C) ARMCO - OWN PROCESS (PURIFER)
--- D) MIDLAND ROSS - OWN PROCESS
--- E) SL/RN (NOT VERY ACTIVE)

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3. U.S. PARTICIPANTS IN CHINA STEEL DID NOT END UP AS CONSORTIUM. U.S. STEEL ENGINEERS AND CONSULTANTS WON CONTRACT TO PROVIDE FOLLOWING:

--- A) REVISING SPECIFICATIONS ORIGINALLY
--- DEVELOPED BY KRUPP

--- B) ACT AS CONSULTANT IN REVIEWING BIDS

--- C) DESIGN ENGINEERING

--- D) CONSULTANCY DURING CONSTRUCTION
--- OF MILL

--- E) TECHNICAL AND MANAGEMENT ASSISTANCE
--- DURING START-UP OPERATIONS AND FOR
--- A 4-YEAR PERIOD THEREAFTER.

4. U.S. FIRMS INVOLVED IN CHINA STEEL CONTRACTS AND BIDDING INCLUDE:

--- U.S. STEEL: ENGINEER-ARCHITECT
--- MESTA: PLATE MILL
--- BLAW KNOX: BAR MILL
--- MORGAN CONSTRUCTION: ROD MILL
--- GENERAL ELECTRIC AND WESTINGHOUSE: ELECTRICALS
--- FOR PLATE, ROD AND BAR MILLS
--- ALIANCE: HEAVY CRANES
--- CLEVELAND CRANES: HEAVY CRANES
--- SWINDELL-DRESSLER: HEATING FURNACES
--- LOFTUS ENGINEERING: HEATING FURNACES
--- UNION CARBIDE: OXYGEN PLANT
--- KOPPERS: COKE OVENS AND BLAST FURNACES
--- ARTHUR MCKEE: BLAST FURNACES AND SINTERING PLANT
--- DRAVO: MATERIALS HANDLING AND SINTERING PLANT
--- WILPUTTE: COKE OVENS

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5. DESCRIPTION OF CHINA STEEL PROJECT - SEE REF B PARA 3. ARRANGEMENTS WERE RECENTLY COMPLETED BY THE CONTINENTAL ILLINOIS NATIONAL BANK FOR FINANCING A 200 MILLION DOLLAR PORTION OF THE STEEL MILL COMPLEX. OF THIS AMOUNT, 120 MILLION DOLLARS WILL BE FINANCED THROUGH EXIMBANK WITH THE REMAINING 80 MILLION DOLLARS COMING FROM 14 U.S. BANKS. THE TOTAL PRICE TAG FOR THE PROJECT IS ESTIMATED AT 800 MILLION DOLLARS.

6. CLASSICAL DEVELOPMENT OF LARGE SCALE INTEGRATED PROJECTS IS AS FOLLOWS:

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--- A) CONTRACT FOR FEASIBILITY STUDY WHICH
--- NOT ONLY PROVES OUT MARKETING ASPECTS
--- BUT FORMS BASIS FOR FINANCIAL
--- EVALUATION.

--- B) PROVIDE PRELIMINARY ENGINEERING
--- AND FLOW SHEETS.

--- C) ARRANGE FOR PRELIMINARY EXPRESSIONS
--- OF FINANCIAL INTEREST FROM BILATERAL
--- INSTITUTIONS AND WORLD BANK.

--- D) NEGOTIATE EQUITY PARTNERSHIP, TECHNICAL
--- OPERATING PARTNERSHIP, OR ARCHITECTURAL
--- ENGINEERING OR PROJECT MANAGER ARRANGE-
--- MENT ALONG LINES OF USSEC CONTRACT AT
--- CHINA STEEL.

--- E) PREQUALIFY SUPPLIERS OF MAJOR ENGINEERED
--- MODULES.

--- F) TENDER MODULES USING ENGINEER ARCHITECTS
--- SPECIFICATIONS.

KRAKATAU STEEL HAS PROCEEDED IN UNCONVENTIONAL AND PIECE MEAL MANNER WHICH HAS DIMINISHED INTEREST ON THE PART OF U.S. COMPANIES. WERE THIS REGULARIZED, OR HAD U.S. FIRMS BEEN HEARD IN THEIR PROPOSALS TO LAY A SOLID FOUNDATION FOR INTEGRATION, WE BELIEVE THERE WOULD BE
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A POSSIBILITY OF A NEW OPENING FOR U.S. ENTRY INTO STEEL PROJECT IN INDONESIA.

7. BACKGROUND ON CHINA STEEL:

--- A. TAIWAN'S INTEGRATED STEEL MILL WAS VIEWED

SKEPTICALLY FOR A LONG WHILE BY OBSERVERS WHO DOUBTED BOTH THAT THE PROJECT WOULD BE ECONOMICAL AND THAT THE ROC WOULD BE ABLE TO LOCATE A FOREIGN PARTNER FOR THE PROJECT. VARIOUS U.S. FIRMS INCLUDING U.S. STEEL WERE CONTACTED BY THE CHINESE DURING 1969 AND 1970. CONCENSUS OF OPINION AT THAT TIME WAS THAT AN INTEGRATED MILL OF THIS SORT WAS AN EXPENSIVE PRESTIGE PROJECT OFTEN SOUGHT BY DEVELOPING COUNTRIES. MUCH THE SAME AS IN INDONESIA, THE ROC TURNED AWAY FROM THE APPARENTLY NONRESPONSIVE AND SOMEWHAT INSULTING ATTITUDE OF U.S. FIRMS.

--- B. U.S. STEEL HAD SENT SEVERAL TEAMS TO TAIWAN AND A FEASIBILITY STUDY, UNDER CONTRACT, HAD BEEN SUB-

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MITTED IN LATE 1970. WHILE THE STUDY WAS NOT NEGATIVE
IN ITS FINDINGS, U.S. STEEL TURNED DOWN A POSSIBLE
PARTNERSHIP AND CHINA STEEL TURNED TO VOEST
(VEREINGTE OESTERREICHISCHE EISEN UND STAHL WERKE, A.G.)

--- C. THE ORIGINAL VOEST/KRUPP PLAN FOR THE
CONSTRUCTION OF THE KAOSHIUNG STEEL COMPLEX WAS
STRUCTURED ALONG THE FOLLOWING LINES: VOEST HAD TAKEN
A 20 PERCENT EQUITY IN THE PROJECT THROUGH AN INVESTMENT
OF 66 MILLION DOLLARS WHICH WAS APPROVED BY THE GROC.
AT THE TIME THIS WAS THE LARGEST SINGLE FOREIGN
INVESTMENT APPROVAL.

--- D. IN SEPTEMBER 1972, INDUSTRY SOURCES NOTIFIED
US THAT CHINA STEEL HAD ISSUED PREQUALIFICATION
DOCUMENTS FOR CONSTRUCTION OF THE BASIC IRON AND STEEL
MAKING FACILITIES BUT NO U.S. FIRMS HAD BEEN INCLUDED.
WE REQUESTED THE EMBASSY TO VERIFY THIS INFORMATION AND
TO REINFORCE WITH CSC THE INTEREST OF U.S. FIRMS IN
PARTICIPATING IN THE PROJECT. DRAVO, WEAN UNITED,
UNION CARBIDE, AND WESTINGHOUSE WERE INVITED TO BID ON
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SMALL PERIPHERY PORTIONS OF THE PROJECT BUT IT WAS
APPARENT THAT NO MAJOR U.S. STEEL TECHNOLOGY (I.E.,
BLAST FURNACES ETC.) WOULD BE INCLUDED IN THE CONSTRUCTION
OF THE FACILITY. WE ASKED THE EMBASSY TO QUERY CSC
ASKING IF THERE HAD BEEN DISCRIMINATION. WE ALSO
SUGGESTED THAT A U.S. FIRM BE INSTALLED AS A CONSULTANT
TO CSC FOR EVALUATION OF BIDS AND TO INSURE PRINCIPALLY
AGAINST DISCRIMINATION AGAINST U.S. SUPPLIERS, BUT ALSO
TO ASSURE THAT THE ENGINEERING CONFORMED TO CSC'S BEST
INTERESTS.

--- E. CHINA STEEL HAD APPROACHED EXIMBANK FOR
FINANCING OF THE PERIPHERAL ITEMS. THESE INCLUDED
ROLLING MILLS, AN OXYGEN PLANT AND THE MATERIALS HANDLING
FACILITIES. A 57.7 MILLION DOLLAR PRELIMINARY COMMIT-
MENT WAS GRANTED. CHINA STEEL REMAINED FIRM IN EXCLUD-
ING THE U.S. FROM THE HEART OF THE MILL APPARENTLY UNDER
ADIVICE OF VOEST AND KRUPP. WE WERE LEFT WITH THE
PROBLEM OF BRINGING FORWARD PROOF THAT THE SITUATION
WAS COUNTER PRODUCTIVE FOR THE ROC.

--- F. IN NOVEMBER 1972, WE NOTIFIED THE EMBASSY THAT
DRAVO, ON RECEIPT OF TENDER DOCUMENTS, HAD FOUND THAT
THE BID PACKAGE WAS A DIRECT TRANSLATION OF KRUPP
EQUIPMENT SPECIFICATION MANUALS VIRTUALLY LOCKING IN

GERMAN PROCUREMENT. ROC VICE MINISTER CHANGE TOLD THE
EMBASSY AT THAT TIME HIS GOVERNMENT WAS CONCERNED

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AND WAS NOW CONTEMPLATING SELECTING A CONSULTANT TO ADVISE THEM ON SELECTION OF BIDS.

--- G. IN MID-DECEMBER, CRAIG ATKINS WAS ASKED TO VISIT TAIWAN TO DISCUSS THE PROJECT AND TO EXPLORE THE OPPORTUNITY FOR A U.S. INDUSTRY TASK FORCE TO FURTHER REINFORCE THE JOINT INTERESTS OF THE USG AND INDUSTRY RELATIVE TO PARTICIPATING IN THIS AND OTHER PROJECTS. VICE MINISTER CHANG WAS IMPRESSED WITH THE USG INTEREST AND HE ENCOURAGED THE FORMATION AND EXECUTION OF THE PROPOSED INDUSTRY TASK FORCE.

--- H. IN JANUARY 1973, CSC PRESIDENT CHAO MET WITH
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MEPD STAFF MEMBERS IN WASHINGTON. HE INDICATED THAT HE WAS DISCUSSING FINANCING WITH EXIMBANK (WHO INCIDENTALLY REINFORCED OUR POINT THAT EXCLUSION OF U.S. COMPANIES WAS INAPPROPRIATE IN VIEW OF OUR COUNTRY'S STRONG SUPPORT FOR TAIWAN AT A TIME WHEN OTHERS WERE ABANDONING THEM IN FAVOR OF THE PRC) AND THAT IF SUITABLE ARRANGEMENTS WERE PROVIDED THERE WOULD BE SUBSTANTIAL PROCUREMENT FROM THE U.S. CHAO ALSO EXPRESSED GREAT INTEREST IN THE FORTHCOMING U.S. INDUSTRY TASK FORCE AND HE INDICATED HIS COMPANY WOULD SUSPEND ANALYSIS OF ALL PROPOSALS UNTIL AFTER ARRIVAL AND DISCUSSION WITH U.S. INDUSTRY GROUP.

--- I. IN MARCH 1973, THE MEPD ORGANIZED BUSINESS CONFERENCE WAS HELD IN TAIWAN. THE GROUP URGED SENIOR ROC AND CHINA STEEL OFFICIALS TO CONSIDER THE U.S. PROPOSALS FOR AN ENGINEER ARCHITECT CONTRACT TO OVERSEE THE CONSTRUCTION OF THE MILL AND TO REPLACE KRUPP. NEW EVIDENCE WAS SUBMITTED SHOWING THAT KRUPP HAD INTENT-IONALLY OVER-STRUCTURED THE PROJECT TO FAVOR PROCURE-MENT FROM KRUPP. THIS LATTER DATA WAS SUPPLIED BY ARMCO, WHO HAD INCLUDED IN THEIR PARTICIPANTS AN

EXPERT ON IRON AND STEEL ECONOMICS. BAKER AND RAND MET SEPARATELY WITH CHAO AND WERE SUCCESSFUL IN EXTRACTING A PROMISE THAT CHINA STEEL WOULD RESTRUCTURE THE PROJECT AROUND U.S. SPECIFICATIONS.

--- J. SUBSEQUENTLY, THE ROC CANCELLED THE VOEST JOINT VENTURE AGREEMENT ON THE GROUNDS THAT THERE HAD BEEN A PROBABLY COLLUSION ON SPECIFICATIONS BETWEEN

VOEST AND KRUPP WHICH PREJUDICED CSC'S BEST INTERESTS. CHINA STEEL ANNOUNCED THAT USS ENGINEERS AND CONSULTANTS WOULD REPLACE KRUPP.

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--- K. IN SEPTEMBER 1973, EXIMBANK GRANTED A 150
MILLION DOLLAR P.C. (LATER EXPANDED TO 200 MILLION
DOLLARS) TO CHINA STEEL FOR U.S. PROCUREMENT FOR THE
CONSTRUCTION OF THE MILL. MEPD ARRANGED MEETINGS
BETWEEN CHAO AND OFFICIALS OF KOPPERS, MCKEE, DRAVO
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AND WILPUTTE IN FURTHERANCE OF THE COMPANIES PROPOSALS.
U.S. INTEREST WAS REINFORCED WHEN MEPD SPONSORED A
DINNER IN LATE OCTOBER FOR VICE MINISTER CHANG WHERE
MAJOR U.S. DESIGN CONSTRUCTORS HAD AN OPPORTUNITY TO
INFORMALLY HIGHLIGHT THEIR QUALIFICATIONS.

8. ACTION A) AS EMBASSY WILL RECALL, THE USG/INDUSTRY
IRON AND STEEL TASK FORCE TO INDONESIA RESULTED IN AN
AGREEMENT THAT IBNU AND/OR KRAKATAU WOULD NOTIFY
PARTICIPANTS WHEN IT WAS TIME TO PRESENT PROPOSALS
CONCERNING METHODS FOR ASSURING RELATIONALIZATION OF
THE PROJECT. THE ARMCO TRAINING, MANAGEMENT
CONSULTANCY TALKS HAD NOTHING TO DO WITH THIS, BUT
DID REVEAL THAT MARJOENI FELT HE WAS OBLIGED TO DEAL
WITH U.S. FIRMS ONLY BECAUSE OF USG PRESSURE IGNORING
THE FACT IBNU HAD REQUESTED ACTION ON OUR PART. U.S.
TASK FORCE PARTICIPANTS HAVE HEARD NOTHING SINCE.
WE NOW BELIEVE IBNU SHOULD BE APPROACHED DIRECTLY ON
THIS MATTER TO DETERMINE IF INDEED THERE IS INTEREST
IN U.S. INVOLVEMENT, AND WHETHER THERE IS INTEREST
IN HEARING U.S. INDUSTRY RECOMMENDATIONS.

B) MEPD HAS BEEN APPROACHED BY KAISER ENGINEERS
FOR BACKGROUND AND ASSISTANCE ON KRAKATAU STEEL.
JESSE TAYLOR, VICE PRESIDENT FOR FAR EAST AND RESIDENT
IN SIDNEY, IS CURRENTLY DOING SPADE WORK PREPARATORY
TO APPROACHING MARJOENI AND ULTIMATELY IBNU. (FYI:
TAYLOR AND KAISER URGE UTMOST CONFIDENCE BE EXERCISED
WITH INFORMATION CONCERNING THEIR INTEREST.) WE SHOULD
LIKE TO BE IN A POSITION TO ENCOURAGE THEM AND

PERHAPS OTHERS SUCH AS U.S. STEEL ENGINEERS BUT TO DO
SO WE NEED MORE PRECISE INFORMATION AS TO THE PROJECT
STATUS. SPECIFICALLY WHAT DOES KRAKATAU PLAN TO INSTALL,
AT WHAT CAPACITIES, AND WHAT IS THE NEAR TERM PLAN FOR
FINISHED PRODUCT, I.E., BARS, ROD PLATE, SHEET, ETC.

IS THERE A TIME-TABLE, OR IS KRAKATAU AWAITING
PARTICIPATION PROPOSALS FROM VARIOUS FIRMS.
WE RECOMMEND EMBASSY CONSIDER ISSUING COMPREHENSIVE
REPORT ON KRAKATAU OPPORTUNITY.
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--- C) PLEASE ADVISE WHAT CIRCUMSTANCES PROMPTED STATEMENT PARA 1 REFTEL THAT NEW OPENINGS FOR U.S. MAY EXIST. IS THE FERROSTAHL/SWINDELL-DRESSLER EXPANSION PLAN RUNNING INTO PROBLEMS? IS THERE A POSSIBILITY A SIMILAR ACTION PROGRAM AS FOR CHINA STEEL MIGHT BEAR FRUIT? KISSINGER

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